such license implied, solely by virtue of the disclosure of any Confidential Information.

18.8 Each Party agrees that the Discloser would be irreparably injured by a breach of this Agreement by the Recipient or its representatives and that the Discloser shall be entitled to seek equitable relief, including injunctive relief and specific performance, in the event of any breach of the provisions of this Agreement. Such remedies shall not be deemed to be the exclusive remedies for a breach of this Agreement, but shall be in addition to all other remedies available at law or in equity.

19. **Branding**

The Parties agree that the services offered by AT&T that incorporate Services and Elements made available to AT&T pursuant to this Agreement shall be branded as AT&T services. To the extent such branding requires customized routing, the Parties recognize that the Louisiana Public Service Commission determined that selective routing as requested by AT&T does not appear to be technically feasible at this time. Therefore, BellSouth need not provide branding or rebranding requiring customized routing until customized routing is available. To that end, BellSouth must, by July 28, 1997, show cause why it should not be ordered by the Louisiana Public Service Commission to provide selective routing. If, at that time, BellSouth is not providing AIN selective routing, BellSouth shall (i) bear the burden of proving that such routing remains technically infeasible and (ii) establish that it has taken all reasonable steps to resolve the technical limitations on AIN or other means of selective routing. AT&T shall provide the exclusive interface to AT&T Customers, except as AT&T shall otherwise specify. In those instances where AT&T requires BellSouth personnel or systems to interface with AT&T Customers, such personnel shall identify themselves as representing AT&T, and shall not identify themselves as representing BellSouth. Except for material provided by AT&T, all forms, business cards or other business materials furnished by BellSouth to AT&T Customers shall be subject to AT&T's prior review and approval. In no event shall BellSouth, acting on behalf of AT&T pursuant to this Agreement, provide information to AT&T local service Customers about BellSouth products or services. BellSouth agrees to provide in sufficient time for AT&T to review and provide comments, the methods and procedures, training and approaches, to be used by BellSouth to assure that BellSouth meets AT&T's branding requirement. For installation and repair services, AT&T agrees to provide BellSouth with branded material at no charge for use by BellSouth ("Leave Behind Material"). AT&T will reimburse BellSouth for the reasonable and demonstrable costs BellSouth would otherwise incur as a result of the use of the generic leave behind material. BellSouth will notify AT&T of material supply exhaust in sufficient time that material will always be

available. BellSouth will not be liable for any error, mistake or omission, other than intentional acts or omissions or gross negligence, resulting from the requirements to distribute AT&T's Leave Behind Material.

20. **Directory Listings Requirements**

20.1 BellSouth shall make available to AT&T, for AT&T subscribers, non-discriminatory access to its telephone number and address directory listings ("Directory Listings"), under the below terms and conditions. In no event shall AT&T subscribers receive Directory Listings that are at less favorable rates, terms or conditions than the rates, terms or conditions that BellSouth provides its subscribers.

20.1.1 **DELETED**

20.1.2 **DELETED**

20.1.3 Subject to execution of an Agreement between AT&T and BellSouth's affiliate, BellSouth Advertising & Publishing Corporation ("BAPCO") substantially in the form set forth in Attachment 13: (1) listings shall be included in the appropriate White Pages or local alphabetical directories (including Foreign Language directories as appropriate), via the BellSouth ordering process, (basic listing shall be at no charge to AT&T or AT&T's subscribers); (2) AT&T's business subscribers' listings shall also be included in the appropriate Yellow Pages or local classified directories, via the BellSouth ordering process, at no charge to AT&T or AT&T's subscribers; (3) copies of such directories shall be delivered by BAPCO to AT&T's subscribers; (4) AT&T will sell enhanced White Pages Listings to AT&T subscribers and BellSouth shall provide the enhanced White Listings; and (5) Yellow Pages Advertising will be sold and billed to AT&T subscribers.

20.1.4 BAPCO will provide AT&T the necessary publishing information to process AT&T's subscribers directory listings requests including, but not limited to:

1. Classified Heading Information
2. Telephone Directory Coverage Areas by NPA/NXX
3. Publishing Schedules
4. Processes for Obtaining Foreign Directories
5. Information about Listing AT&T's Customer Services, including telephone numbers, in the Customer Call Guide Pages.

Before the
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of

Application by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc. for Provision of In-Region, InterLATA Services in South Carolina	)))))	CC Docket No. 97-208

AFFIDAVIT OF

DON J. WOOD

ON BEHALF OF

AT&T CORP.

AT&T EXHIBIT L

FCC DOCKET CC NO. 97-208
AFFIDAVIT OF DON J. WOOD

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Before the
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the matter of

Application by BellSouth Corporation,	)	
BellSouth Telecommunications, Inc.,	)	
and BellSouth Long Distance, Inc. for	)	**CC Docket No. 97-208**
Provision of In-Region, InterLATA	)	
Services in South Carolina	)	

AFFIDAVIT OF
DON J. WOOD
ON BEHALF OF AT&T CORP.

Don J. Wood, being first duly sworn upon oath, does hereby depose and state as follows:

INTRODUCTION AND QUALIFICATIONS

1. My name is Don J. Wood. My business address is 914 Stream Valley Trail, Alpharetta, Georgia 30202.

2. I provide consulting services, including economic and regulatory analysis services, to the ratepayers and regulators of telecommunications utilities. In this capacity, I have been directly involved in both the development and implementation of regulatory policy in the telecommunications and related industries.

3. I graduated from Emory University in 1985 with a Bachelor's Degree in Business Administration. In 1987, I received a Master's Degree in Business Administration, with concentrations in Finance and Microeconomics, from the College of William and Mary.

4. My telecommunications experience has included employment in both the local exchange and interexchange telephone businesses. From 1987 to 1989, I was employed in the local exchange industry by BellSouth Services, Inc. in its Pricing and Economics, Service Cost Division. My responsibilities included performing cost analyses of new and existing services, preparing documentation for filings with state regulatory commissions and the Commission, developing methodologies and computer models for use by other analysts, and performing special assembly cost studies. From 1989 to 1992, I was employed in the interexchange telephone industry by MCI Telecommunications Corporation as Manager of Regulatory Analysis for the Southern Division. In that capacity, I was responsible for developing and implementing regulatory policy for operations in the southern region of the United States. I then served as a Manager in MCI's Economic and Regulatory Affairs Organization, where I participated in the development of regulatory policy for national issues.

5. I have testified before the state commission's throughout the region served by BellSouth in proceedings that have been conducted under the Telecommunications Act of

1996 ("Act"). In the course of doing so, I have reviewed the testimony submitted by BellSouth witnesses regarding prices for interconnection unbundled network elements ("UNEs"), and cost studies underlying such testimony. I have also attended various pricing workshops conducted by BellSouth.

6. The purpose of my affidavit is to address whether BellSouth has demonstrated that it is currently providing, or that it is currently capable of providing, interconnection and access to unbundled network elements ("UNEs") at cost-based prices as required by the Telecommunications Act of 1996 ("Act"). As I will explain in greater detail below, BellSouth has failed to show that the prices it offers are cost-based as required by Sections 252(d)(1) and (2) of the Act and thus that it has complied with the pricing requirements of the competitive checklist in the Act.

7. First, in its Ameritech Michigan Order the Commission made clear that it has a duty under Section 271 of the Act to independently review the BOC's UNE prices, and that an applicant such as BellSouth must submit "detailed information" regarding the derivation of such prices. BellSouth has not even attempted to comply with the Ameritech Michigan Order in this regard, but has instead merely asserted that the pricing determinations of the

Public Service Commission of South Carolina ("SCPSC") are "conclusive."[1] Hence, for this reason alone, BellSouth's application is deficient and should be denied.

8. Second, the prices for loops set forth in Attachment A of BellSouth's SGAT are deficient on their face. The price list reflects only one, averaged price for each loop type, contrary to the Commission's holding that the Act requires geographically deaveraged loop prices.

9. Third, the rates charged by BellSouth are significantly in excess of reasonable, nondiscriminatory rates based on total element long run incremental costs ("TELRIC"), particularly when they are coupled with various nonrecurring charges proposed by BellSouth.

10. Finally, I show that in the docket established by the SCPSC to establish "permanent" UNE rates, BellSouth has proposed rates that substantially depart from the

[1] Far from being conclusive, the findings of the SCPSC provide no support for BellSouth's application. Many of the rates relied upon by BellSouth are based upon the order of the SCPSC issued in the AT&T/BellSouth arbitration on March 10, 1997. In that order, the SCPSC did not even purport to determine that the rates it adopted -- for "interim" purposes -- were cost-based under Section 252(d) of the Act. Moreover, the "cost studies" that BellSouth submitted in the arbitration (which BellSouth has not included in its 17,000 page application) were not alleged to be the bases of the rates BellSouth proposed and were not the bases of the rates the SCPSC adopted. Nor, for a number of reasons, would BellSouth's cost studies have provided an adequate cost basis for its rates consistent with the requirements of the Act.

TELRIC principles established by the Commission in the Local Competition Order, and are thus even higher than the non-cost-based interim rates that are the basis of BellSouth's application. The Commission should consider BellSouth's proposed prices in determining whether interLATA authorization is consistent with the public interest, and, at a minimum, condition such authorization on BellSouth's commitment to propose prices in South Carolina that are developed in accordance with the Local Competition Order and the Ameritech Michigan Order.

APPLICABLE LEGAL STANDARDS AND REQUIREMENTS

11. Section 271(c)(2)(B)(i) of the Act mandates that a Regional Bell Operating Company ("RBOC") such as BellSouth provide "interconnection in accordance with the requirements of Sections 251(c)(2) and 252(d)(1)." Thus, as a precondition to providing interLATA services in South Carolina, BellSouth must provide among other things interconnection and unbundled network elements at rates that are "just, reasonable and nondiscriminatory," 47 U.S.C. § 251(c)(2), and "based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable)," id. at § 252(d)(1)(A)(i). In its Local Competition Order, this Commission implemented these provisions by adopting the forward-looking, total element long run incremental cost ("TELRIC") methodology for calculating network element costs. Local Competition Order at ¶¶ 690-93. Thus, the Commission

found that the appropriate rate for a network element is the forward-looking cost of efficiently providing it. The Commission found that, in contrast, rates that recover embedded or opportunity costs do not comply with the Act. Id. at ¶¶ 704-11. The Commission further found that incumbent local exchange carriers ("LECs") should bear the burden of proving that rates for interconnection and unbundled elements meet the statutory requirements on the ground that such incumbent LECs "have greater access to the cost information necessary to calculate the incremental cost of unbundled elements of the network." Id. at ¶ 680.

12. BellSouth must also demonstrate compliance with Section 271(c)(2)(B)(xiii) of the Act, which requires that "reciprocal compensation arrangements in accordance with the requirements of section 252(d)(2)" be implemented. Section 252(d)(2) requires that the terms and conditions of any reciprocal compensation agreement: (1) do not provide a competitive advantage to either carrier; and (2) do not reward incumbent carriers for network inefficiencies that they may experience relative to new entrants, or punish new entrants for network efficiencies that they may experience relative to incumbents. Because a cost-based price for truly mutual and reciprocal compensation for the termination of a call originated by competitors has not yet been established, BellSouth's SGAT fails to comply with these requirements of the Act as well.

13. In Iowa Utilities Board v. FCC, the United States Court of Appeals for the Eighth Circuit held that these provisions of the Local Competition Order are not binding on state commissions in proceedings conducted under Section 252 of the Act. However, in its Memorandum Opinion and Order issued on August 19, 1997 with regard to a Section 271 application of Ameritech Michigan in CC Docket No. 97-137 ("Ameritech Michigan Order"), the Commission recognized that the Eighth Circuit's ruling is based solely on the ground that the Commission does not have jurisdiction to prescribe pricing standards for state Section 252 proceedings, and did not even purport to address those standards on their merits. Moreover, the Commission has made clear in its Ameritech Michigan Order that it will continue to observe those forward-looking, cost-based standards in proceedings under Section 271. Thus, the Commission expressly reaffirmed its determination in the Local Competition Order that the market entry intended by Congress requires that UNE and related prices be "based on forward looking economic costs," id. at ¶ 289, and that such costs should be "implemented through a method based on . . . TELRIC." Id. at ¶ 290. In the Ameritech Michigan Order the Commission also confirmed that "a BOC will not be deemed to be in compliance with sections 271(c)(2)(B)(i), (ii) and (xiv) of the competitive checklist unless it has shown that its non-recurring charges reflect forward-looking economic costs." Id. at ¶ 296.

I. BELLSOUTH'S FAILURE TO SUBMIT COST EVIDENCE IN SUPPORT OF ITS APPLICATION VIOLATES THE COMMISSION'S RULING IN AMERITECH MICHIGAN AND, BY ITSELF, WARRANTS DISMISSAL OF THE APPLICATION.

14. As a threshold matter, BellSouth has failed to provide to the Commission with its application any cost support for the rates upon which its application relies to establish that BellSouth has satisfied its obligations under the Act. Rather, BellSouth has merely asserted to the Commission that "[t]he SCPSC's pricing determinations are conclusive." BellSouth Brief at 37. As I will explain later in my affidavit, BellSouth did not even attempt to sustain its burden under the Commission's pricing standards before the SCPSC.

15. BellSouth's failure to provide the Commission with any cost support for its proposed rates flouts the procedural requirements established by the Commission for processing Section 271 applications. In Procedures for Bell Operating Company Applications Under New Section 271 of the Communications Act, FCC 96-469 (December 6, 1996), the Commission stated: "[w]e expect that a Section 271 application, as originally filed, will include all of the factual evidence on which the applicant would have the Commission rely in making its findings thereon." Id. at 2. Moreover, in its Ameritech Michigan Order the Commission expressly applied this general rule to pricing evidence in particular, stating that "[i]n order for us to conduct our review, we expect a BOC to include in its application detailed information concerning how unbundled network element prices were derived." Id.

at ¶ 291. The Commission would search BellSouth's application for such information in vain. Accordingly, BellSouth has not carried its burden of proof on this issue.

II. BY BELLSOUTH'S ADMISSION, ITS PROPOSED LOOP PRICES ARE NOT GEOGRAPHICALLY DEAVERAGED.

16. Apart from BellSouth's failure to submit evidence to the Commission demonstrating that its UNE rates comply with the Act, BellSouth admits that it does not offer geographically deaveraged rates for unbundled loops, as required by the Act.

17. In its Local Competition Order, the Commission found "that deaveraged rates more closely reflect the actual costs of providing interconnection and unbundled elements," and concluded that "rates for interconnection and unbundled elements must be geographically deaveraged." Id. at ¶ 764 (emphasis added). And in its Ameritech Michigan Order, the Commission confirmed that deaveraging is mandatory for Section 271 checklist compliance:

> Establishing prices based on TELRIC is a necessary but not sufficient condition for checklist compliance. In order for us to conclude that sections 271(c)(2)(B)(i) and (ii) are met, rates based on TELRIC principles for interconnection and unbundled network elements must also be geographically deaveraged to account for the different costs of building and maintaining networks in different geographic areas of varying population density.

Id. at ¶ 292 (emphasis added).

18. BellSouth is not unaware of these pronouncements of the Commission. Indeed, in his affidavit, Mr. Varner quotes the very same passage from the Ameritech Michigan Order I have quoted above. Varner Aff. at ¶ 37. However, Mr. Varner then goes on to state that:

> BellSouth does not offer deaveraged rates for unbundled network elements. The Act does not require that rates for unbundled elements be deaveraged; therefore the SCPSC has the authority to determine whether geographic rates should be set as well as the timing of the implementation of such rates. Geographical deaveraging was not addressed or ordered by the SCPSC in the AT&T arbitration proceedings, therefore, it is not required.

Mr. Varner's statement is significant for at least two reasons.

19. First, Mr. Varner does not attempt to defend BellSouth's failure to deaverage on any factual ground -- e.g., that there are no significant geographic cost variations within South Carolina. Mr. Varner also suggests that "BellSouth is not categorically opposed to deaveraging local loop prices." Id. at ¶ 38. Rather, Mr. Varner attempts to defend BellSouth's failure to deaverage loop prices by arguing that "unbundled loop rates should not be deaveraged until such time as the state commission can fully evaluate all the implications of such a policy change . . . includ[ing] establishing a universal service fund and rebalancing end user local service rates." Id. Hence, BellSouth's refusal to deaverage loop rates geographically is based solely on its disagreement, on policy grounds, with this

Commission's mandate that loop rates must be geographically deaveraged as a precondition to interLATA entry.

20. Second, although Mr. Varner attempts to place the SCPSC between BellSouth and this Commission -- as though the SCPSC had decreed that there is to be no geographic deaveraging at this time and as though the Commission owed some deference to such a decree -- as Mr. Varner expressly acknowledges, geographic deaveraging was not even addressed by the SCPSC in the AT&T/BellSouth arbitration. The SCPSC has not required BellSouth to propose averaged loop prices. Hence, what Mr. Varner's assertions boil down to is nothing more than that BellSouth does not agree with the Commission's geographic deaveraging requirement. Clearly, the Commission owes no deference to the policy views of BellSouth on this or any other issue.

III. BELLSOUTH'S INTERIM RATES ARE NOT BASED ON EFFICIENT, FORWARD-LOOKING COSTS.

21. Based on my knowledge of the data submitted to the SCPSC by BellSouth and AT&T, and my participation in those proceedings, it is clear that the BellSouth's current rates for interconnection, UNEs and reciprocal compensation are not based on efficient, forward-looking costs, and therefore do not comply with the Act. As set forth in Attachment A to BellSouth's revised SGAT filed with the SCPSC on August 4, 1997, and as recounted

in the affidavit of Mr. Alphonso J. Varner filed with BellSouth's application, the rates upon which BellSouth relies for purposes of its Section 271 application are derived from a variety of sources.

22. Some of the rates are taken from the SCPSC's order in the AT&T/BellSouth arbitration (Docket No. 96-358-C). See Order No. 97-189 issued March 10, 1997 ("Order on Arbitration"). As explained in greater detail below, these arbitration rates were based not on any cost studies, but on rates negotiated between BellSouth and American Communications Systems, Inc. ("ACSI") approved by the SCPSC in Docket No. 96-262-C, and from proxy rates established by this Commission in the Local Competition Order, and interim rates negotiated between AT&T and BellSouth. Under the SCPSC's order, these are interim rates, subject to true-up once permanent rates are established. Other interim rates in BellSouth's SGAT are derived from interstate and intrastate tariffs, prices proposed by BellSouth in the AT&T/BellSouth arbitration, and prices agreed to by AT&T and BellSouth, on an interim basis, for the purpose of pricing UNEs for which no interim rates were set in the SCPSC's arbitration order. Except for certain of the rates derived from FCC and SCPSC tariffs, these rates are also subject to true-up. Despite the contrary statement of the SCPSC, none of these rates has been shown to be cost-based.

A. The Rates Ordered in the AT&T/BellSouth Arbitration Are Not Cost-Based.

23. In its Order Addressing Statement and Compliance with Section 271 issued in Docket No. 97-101-C on July 31, 1997 ("SCPSC SGAT Order"), the SCPSC purported to find that the interim rates are cost-based, and, indeed, that they are based on TELRIC.[2] According to that order, "[w]ith regards to the rates themselves, the Commission concludes that they are cost-based within the requirements of the 1996 Act." SCPSC SGAT Order at 55 (emphasis added). The SCPSC did not base this finding on any cost evidence submitted in the Section 271 compliance proceeding; no cost evidence was submitted in that proceeding. Rather, the SCPSC sought to justify its conclusion on the following three grounds:

> First, the rates in the Statement which are taken from the [BellSouth-AT&T] arbitration are well within the bounds of the TELRIC cost studies provided in that proceeding by [BellSouth] and the Hatfield Model rates provided in that proceeding by AT&T. Also many of the rates are within the FCC proxy rate ranges which brings them within the bounds of the cost information available to the FCC when it set these ranges. Finally, the negotiated rates incorporated into the Statement were certainly not set by the parties without reference to the cost of services to be provided.

[2] As discussed in the Affidavit of Kenneth McNeeley, submitted herewith, the SCPSC's 271 Compliance Order was drafted by BellSouth.

Id. In addition, and apparently in the alternative, the SCPSC reasoned that "[s]ince the rates will be adjusted as of their effective date and since the true up will be based on cost information, . . . the interim rates . . . are cost-based within the requirements of the 1996 Act." Id. None of the rationale offered by the SCPSC in support of the notion that BellSouth's rates are cost-based can possibly survive scrutiny, as explained below.

B. The SCPSC's Post-Hoc, Revisionist Finding that the Arbitration Rates Are Based on Cost Studies Is Wholly Unsupportable.

24. As a preliminary matter, the SCPSC's suggestion that the rates in BellSouth's SGAT are supported by "TELRIC" cost studies submitted in the arbitration proceeding is remarkable, because those studies were not before the SCPSC in the Section 271 proceeding, and because BellSouth and the SCPSC did not even rely on those studies in the arbitration proceeding. Although BellSouth did submit in that proceeding what it represented to be TELRIC-compliant cost studies, it urged the SCPSC not to rely on or scrutinize those studies, on the ground that the Commission's TELRIC rules had been stayed by the Court of Appeals. Instead, BellSouth urged the SCPSC to set rates based on its existing tariffed rates, or rates that had been negotiated between BellSouth and another CLEC. Specifically, Mr. Robert C. Scheye, a Senior Director in Strategic Management for BellSouth, testified that:

> Now that the FCC's Rules have been stayed, if available, market rates or the existing tariff rates, which are clearly cost based and in compliance with the pricing standards set forth in Section 252(d) of the Act, should be used to set the appropriate rates for unbundled elements. For those elements for which there are no tariffed or market rates available, BellSouth would have no objection to . . . using the principles set out in the recently negotiated settlement between BellSouth and . . . ACSI.[3]

Scheye Direct Test. (SCPSC Docket No. 96-358-C) at 13 (emphasis added).

25. In its Order on Arbitration, the SCPSC agreed with BellSouth's proposal and ruled that "the negotiated prices agreed upon by BellSouth and . . . ACSI . . . shall be utilized as the interim prices for unbundled network elements." Order at 14-15. The SCPSC's rationale was simply that "[t]he ACSI agreement is the only Commission-approved interconnection agreement which contains unbundled network element costs/pricing." Id. The SCPSC ordered BellSouth to "furnish verifiable cost studies in support of the prices for

[3] BellSouth reiterated these positions in its posthearing brief and proposed order filed in the arbitration on February 18, 1997. In its brief and proposed order, BellSouth discussed at length the testimony that was critical of the Hatfield Model and the pricing rules adopted in this Commission's Local Competition Order. However, BellSouth did not even mention the cost study it submitted in the arbitration; according to BellSouth, "[a]s a result of the Stay and the flaws that riddle the Hatfield Model, the only remaining evidence in this case with respect to pricing that meets the requirements of the Act is that set forth by BellSouth." BellSouth Brief and Proposed Order at 70. Such "evidence" was clearly not the studies sponsored by BellSouth, which reiterated its position that the SCPSC should adopt either BellSouth's tariffed rates on the ground that "those existing tariff rates are based on BellSouth's costs, have been approved by the [SCPSC], include a reasonable profit, and therefore, meet the requirements of § 252 of the Act," or its so-called "market-based rates" -- i.e., rates agreed to by ACSI. Id.

unbundled network elements within 90 days," with the proviso that "differences between the interim rates and the prices developed pursuant to the cost studies will be trued-up . . . ." Id. at 15. The SCPSC did not rely on the cost studies submitted by BellSouth, did not scrutinize the studies, and did not find that they complied with TELRIC principles.

26. Moreover, the SCPSC's finding that BellSouth's proposed rates are "well within the bounds" of the studies provided by the parties in the arbitration proceeding is almost completely meaningless, because those "bounds" are so far -- indeed, ridiculously far -- apart, and the bounds themselves were never found to comply with TELRIC. Typically, the rate proposed by BellSouth in the arbitration is at least twice that proposed by AT&T based on the Hatfield Model. For example, for the 2-wire local loop, a key component of the local exchange network, the Hatfield Model estimated charges ranging from $57.97 for very low density areas (0-5 lines per square mile) to $9.43 for high density areas (more than 2550 lines per square mile), and an average charge of $14.88. See Wood Direct Test. (SCPSC Docket No. 96-358-C) at Exhibit DJW-3. In contrast, in the cost study BellSouth submitted in the arbitration, the average loop cost was $30.38. See Scheye Exhibit RCS-3 (SCPSC Docket No. 96-358-C). To conclude, as the SCPSC did, that BellSouth's interim loop rate of $18.00 is appropriately cost-based because it is "well within the bounds" of $14.88 and $30.38 is necessarily to assume that these "bounds," particularly the upper one, bear some reasonable relationship to TELRIC principles. No such finding was ever made by the

SCPSC, and, in light of the fact that the upper bound is almost twice the lower bound, there is no basis for any such assumption.

27. The SCPSC's observation that BellSouth's UNE rates fall within the "bounds" of the parties' proposals, even if relevant, is demonstrably incorrect with respect to the unbundled switch. For local switching, the per month charge estimated by the Hatfield Model was $1.29, including all features and functions of the switch, as compared to the $2.58 estimated by BellSouth's cost study. See Scheye Exhibit RCS-3 (SCPSC Docket No. 96-358-C). Yet the rate for the unbundled switch approved by the SCPSC in the arbitration proceeding, and incorporated into BellSouth's SGAT, is $2.70, which significantly exceeds the "upper bound" represented by BellSouth's proposal of $2.50.

28. Third, BellSouth submitted no TELRIC-based cost studies in the arbitration proceeding (or in the SCPSC's Section 271 proceeding) to support its non-recurring charges. Thus, Ms. D. Daonne Caldwell, the witness who sponsored BellSouth's alleged TELRIC studies in the arbitration, testified that "nonrecurring activities" and "nonrecurring cost study inputs, as well as other nonrecurring inputs, are currently being reviewed," and that "[t]he TELRIC studies being filed with this testimony . . . do not include nonrecurring costs." Caldwell Direct Test. (SCPSC Docket No. 96-358-C) at 3 (emphasis added). Instead, BellSouth's non-recurring cost studies were based on "time-motion" studies of manual

processing operations which disregarded the fact that BellSouth will provide UNEs using electronic interfaces that will allow CLECs to submit orders with little, if any, human intervention by ILEC personnel.

29. In the SCPSC arbitration, many of AT&T's proposed rates for UNEs were based on the Hatfield Model, which this Commission reviewed (in an earlier version) in the rulemaking that culminated in the Local Competition Order. As the Commission is aware, the Hatfield Model is not only subject to verification and adjustment, but is also predicated on the TELRIC concepts set forth in the Local Competition Order.[4] In my arbitration testimony, I provided the results of Hatfield studies for South Carolina. For interconnection and UNE prices that were not available through the Hatfield model, AT&T proposed prices based on those proposed by BellSouth, but adjusted to reflect TELRIC principles. AT&T explained that the BellSouth cost studies to which AT&T had access were inadequately documented, difficult or impossible to verify or adjust, and based on undisclosed input data.

[4] Thus, earlier versions of the Hatfield Model were among those which, based on its initial examination, the Commission noted "in principle, appear best to comport with the preferred economic approach . . . [and] . . . to offer a method of estimating the cost of network elements on a forward-looking basis that is practical to implement and that allows state commissions the ability to examine the assumptions and parameters that go into the cost estimates." Local Competition Order at ¶¶ 834, 835.

30. Despite the limitations of the BellSouth cost studies, AT&T was also able to identify a number of respects in which these studies evidently did not conform to the TELRIC principles which this Commission concluded in the Local Competition Order are crucial to fostering entry into the local exchange business consistent with the basic purposes of the Act -- for example, that these studies were based on inappropriate technologies, understated utilization factors and defective samples.[5] Although AT&T's adjustments were necessarily somewhat rudimentary in view of the limitations of BellSouth's cost models, the adjusted prices were almost certainly closer to TELRIC results than the unadjusted prices.

31. In its testimony in the SCPSC arbitration responding to the testimony submitted by AT&T, BellSouth submitted additional cost studies purportedly based on the TELRIC principles articulated in the Local Competition Order. However, the BellSouth cost studies

[5] For example, BellSouth's cost studies are incapable of producing geographically deaveraged loop costs. In addition, the sample of loops relied on by BellSouth, less than 500 out of over 2 million, is far too small to capture values for the wide range of loop characteristics (such as length) found in BellSouth's network, and it is based only on 2-wire loops notwithstanding, that it is used to determine costs for other loop types as well. The loop costs computed by BellSouth, moreover, are for loops equipped with digital to analog signal conversion capabilities which are expensive, and thus inflate loop costs, but are neither necessary nor desirable in most applications. Finally, because BellSouth has taken the position that the loop combined with switching and other UNEs downstream can only be purchased at the wholesale rate for resold services, BellSouth provided no cost studies, recurring or non-recurring, for BellSouth loops and switching to be used in combination.

As I will explain below, these flaws, and a number of other flaws, continue to undermine BellSouth's cost studies.

were clearly not in compliance with TELRIC principles. Moreover, as I noted above, as BellSouth's witness Ms. Caldwell acknowledged in her testimony, BellSouth had completed no cost studies, even purported to be based on TELRIC principles, for non-recurring charges.

32. However, even if BellSouth's cost studies had not suffered from such defects, such studies were not the bases for BellSouth's proposed rates. In the testimony of BellSouth's witness Mr. Scheye also filed on January 20, 1997, BellSouth made it absolutely clear that BellSouth was not asking the SCPSC to set interim rates on the basis of the cost studies sponsored by Ms. Caldwell. Indeed, in light of the stay of the binding applicability of the Commission's pricing rules in state Section 252 proceedings that had been ordered by the Eighth Circuit, BellSouth expressly urged the SCPSC to disavow this Commission's findings that rates for interconnection and UNEs should be based on TELRIC principles.

C. The Negotiated Rates Incorporated Into the SGAT Are Not Cost-Based.

33. Two categories of negotiated rates are reflected in the SGAT: first, the rates negotiated between BellSouth and ACSI that were adopted by the SCPSC in its arbitration order; and second, the rates that were negotiated by BellSouth and AT&T subsequent to the arbitration order to fill gaps left by the arbitration order for UNEs for which no rates had been negotiated between BellSouth and ACSI. Contrary to the SCPSC's unsupported